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May 16, 2000

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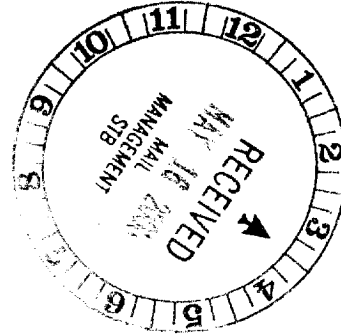
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Mr. Vernon A. Williams
Secretary, Surface Transportation Board
Room 2215
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Washington, D.C. 20423

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Re: Ex Parte No. 582 (Sub-No. 1), Major Rail Consolidation Procedures

Dear Secretary Williams:

Enclosed are the original and 25 copies of the "Comments of Enron Corporation" for filing in the above-referenced proceeding, and a diskette containing the Comments in WordPerfect format.

Also enclosed are three additional copies for date stamping and return via our messenger.

Very truly yours,

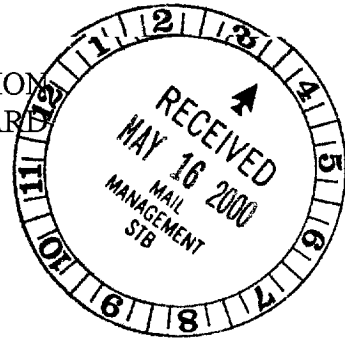
Bruce W. Neely

Bruce W. Neely

Attorney for Enron Corporation

Enclosures

UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
SURFACE TRANSPORTATION BOARD



EX PARTE NO. 582 (SUB-NO. 1)

MAJOR RAIL CONSOLIDATION PROCEDURES

COMMUNICATIONS ENRON CORPORATION

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Attorneys for Enron Corporation

Due Date: May 16, 2000
Dated: May 16, 2000

I. INTRODUCTION AND SUMMARY

Enron Corporation ("Enron") hereby submits its Comments on the Board's March 31, 2000 Advanced Notice of Proposed Rulemaking ("ANPR"). In submitting these comments, Enron's primary purpose is to urge the Board to make way for the development of a secondary market for rail transportation in the United States - to allow entities interested in moving goods and materials by rail to secure such transportation rights from shippers who hold capacity on the railroads, and not exclusively from the railroad itself.

With the number of mergers and consolidations of railroad companies, we understand that the Board is very concerned that the pace of consolidation will result in all of the current rail lines in the country being held by no more than one or two large companies. With fewer and fewer rail carriers, there is less and less competition among rail carriers, and this makes it increasingly difficult for the Board in evaluating railroad mergers. With the substantial consolidation activity experienced already in the industry, how can the Board approve new merger proposals and still satisfy its charge from Congress - to consider the effect of the proposed merger on "on competition among rail carriers in the affected region or in the national rail system" and "the adequacy of the transportation to the public"? 49 U.S.C. § 11324(b)(1) and (5).

One way to immediately mitigate the anticompetitive effects of ongoing consolidation activities is to approve the development of a "virtual railroad" - an expansion of consumer access to rail transportation through the operation of a secondary market for such transportation. The concept of a "virtual railroad" is one that Enron spoke to, in general, in its Statement submitted

on February 29, 2000 in Ex Parte No. 582.¹ Here, Enron seeks to provide further detail on how a "virtual railroad" could work and why it would provide benefits to the public, to those interested in securing transportation by rail for goods and products, and to the railroads themselves.

To be clear, Enron is not asking the Board to prohibit new consolidations. Rather, Enron is proposing a vehicle that will mitigate many anticompetitive effects from further consolidation in the industry - perhaps enough to allow the Board to approve a future consolidation that otherwise would fail to satisfy the applicable standards. Accordingly, Enron urges the Board to revise its consolidation procedures to require applicants to explain in their applications the steps they have taken to implement a secondary market for rail transportation capacity, as more fully described below. The Board would then take the applicants' implementation of such a market into account in determining whether the consolidation should be approved.

II. COMMENTS

A. How Would A Secondary Market For Railroad Capacity Work?

First, railroads would continue to own and operate their physical rail networks. Enron is not proposing to place ownership or operational responsibility in the hands of shippers, nor is it proposing to mandate access to proprietary rail systems to third parties. Railroads would, however, be accountable for establishing standardized contracts that create shipper access to rail capacity at transparent, market-responsive prices.

Second, the industry standard contract would be fully transferable to other shippers and designed to promote a liquid secondary market for railroad capacity. While Enron recognizes

¹ Enron's Statement in Ex Parte No. 582. Enron incorporates that statement by reference. For the Board's convenience, a copy is attached to this submission.

that all of the specific operational issues that could hinder contract transferability are not addressed herein, a basic outline for how rail capacity markets could be established is as follows:

- 1) Railroads, shippers and other interested parties would work with the Board to establish an amenable standard capacity contract with the following general features:
 - Prices to be established by market conditions;
 - Delivery services to be priced between major rail “hubs”;
 - Volume increments to be sufficiently large to create wholesale economics;
 - Performance commitments to be reinforced with liquidated damages; and
 - Delivery period and timing designed to reflect operational challenges.
- 2) Railroads would convert existing contracts to transferable capacity contracts and begin to sell new capacity contracts under prices and terms mutually agreeable to shippers and railroads.
- 3) A secondary market would be established by shippers, railroads and third parties, allowing all interested parties the ability to buy needed or sell unneeded capacity.
- 4) Railroads would respond to market price signals by adding or redeploying network capacity subject to operational and contractual constraints.
- 5) Customers holding contracts would request specific service. At some pre-specified time interval (e.g. 30 days prior to delivery), capacity markets would close for a given delivery period so that the railroads can schedule service.
- 6) Railroads would schedule trains to meet delivery requirements.
- 7) Shipper/railroad would make a final cash settlement to account for basis differences in actual service and contracted capacity (movement to and from hubs, weight of train, etc.), similar to the adjustments oil pipelines make to reflect differences in the quality of oil.

Finally, merger applicants would be free to propose additional features that would serve the Board’s goals of fostering competition, increasing the overall quality and dependability of rail service, and advancing the public interest.

B. How Is Competition Enhanced And The Public Interest Served By The Creation Of A Secondary Market For Rail Transportation Capacity?

There are many benefits that result from the approach outlined above. First, the creation of a secondary market greatly *expands access to rail transportation* because it allows interested entities to secure rail capacity from shippers and not just from the railroad itself. Increases in the number of alternatives available to interested buyers will have positive competitive effects.

Second, transportation by rail is made *more attractive to potential customers*. Under the parameters above, customers can purchase a particular capacity path with a defined delivery date (for present or future service), and they can re-sell their capacity rights (either in full or in part) if they don't need it. This makes rail transportation more attractive to buyers than other types of transportation, and potentially more profitable for rail carriers.

Third, with rail capacity sold in segments, and to those willing to pay the highest price (coupled with the shipper's ability to re-sell its capacity rights), market forces are allowed to *identify where rail capacity is most valuable and where additional capital investment by the rail carrier is warranted*. This effect will directly contribute to the profitability of railroads.

Fourth, rail carriers will have a strong *incentive to improve the quality of service* to shippers and to find ways to make their operations more efficient because Shippers will be willing to pay higher prices for higher quality (e.g., faster) service. With the *incentive to operate more efficiently*, railroads are likely to find that they can free up additional capacity for sale, increase "throughput" (i.e., ton-miles and car-miles) and further increase revenues. The more efficient and effective the rail carrier operates on those rail segments found to be of the most value to shippers, the greater the potential for rail carriers to find solutions to constraint points, and the greater the level of revenue growth for those rail carriers.

Fifth, customers will have *greater flexibility* in arranging for delivery of their goods. With capacity available by segment, customers can piece together their own, tailor-made, delivery path, combining capacity segments acquired directly from the railroad and those acquired on the open market from shippers. In this manner, they can secure delivery of their products on their own "virtual railroad".

Implementation of a secondary market for rail transportation capacity will not resolve all issues the Board will consider in this proceeding. For example, implementation of a capacity market will not affect, one way or another, the employee and cross-border issues the Board identified in the ANPR. Moreover, there will still be a need for the Board to consider other modifications to its merger procedures to enhance competition and safeguard service because the implementation of a capacity market may not be feasible on all railroads and it may not eliminate all competitive and service related concerns. But with the implementation of a secondary market for rail transportation capacity, these remaining issues will arise in an environment of improved service and enhanced competitive alternatives.

C. A Secondary Market For Interstate Transportation Is In Place In Other Industries.

Secondary markets for interstate transportation capacity are well established in other industries. Since the early 1990s, interstate transportation capacity on natural gas pipelines has been available on the secondary market. Enron owns several natural gas pipelines and also owns companies that ship natural gas across the country - not only on the Enron pipelines, but also on pipelines owned by others. It has become routine for entities seeking interstate natural gas transportation to secure capacity rights directly from shippers on the pipeline. Such transactions

generally are referred to as "capacity release" transactions. A large percentage of all interstate natural gas transportation capacity is sold in the secondary market.

The development of the secondary market interstate pipeline transportation capacity is the direct result of action taken by the Federal Energy Regulatory Commission ("FERC"), which regulates the interstate transportation of natural gas. In its landmark rulemaking, Order No. 636,² issued in 1992, the FERC mandated that interstate pipelines allow their shippers to release unwanted capacity rights for sale to others. Specifically, the FERC's Regulations require that "[f]irm shippers must be permitted to release their capacity, in whole or in part, on a permanent or short-term basis, without restriction on the terms or conditions of the release" 18 C.F.R. § 284.243(b) (1999). The FERC just recently remarked, in Order No. 637, why capacity release resulted in the development of a more competitive transportation market:

The Commission allowed firm holders of pipeline capacity to resell or release their capacity to other shippers and required pipelines to permit shippers to use flexible receipt and delivery points. Enabling firm shippers to resell their capacity created competitive alternatives to purchasing pipeline services. The ability to use flexible receipt or delivery points also expanded the capacity alternatives available to buyers of capacity because it meant that buyers were not restricted to using the primary points in the releasing shipper's contract. Capacity buyers could seek capacity from any number of firm capacity holders and use flexible point authority to inject and deliver gas at the points the purchasing shipper chose to use.

* * *

The use of released capacity has made possible the development of *virtual pipelines*. A virtual pipeline can be created when a marketer or other shipper acquires capacity on interconnecting pipelines and can schedule gas supplies across the interconnect, creating in effect a new pipeline between receipt and

² Order No. 636, *Pipeline Service Obligation and Revisions to Regulations Governing Self-Implementing Transportation; and Regulation of Natural Gas Pipelines After Partial Wellhead Decontrol*, FERC Stats. & Regs. [Regs. Preambles 1991-1996] ¶ 30,939 (1992) (subsequent history omitted).

delivery points that are not physically connected under a single pipeline management.

Regulation of Short-Term Natural Gas Transportation Services, and Regulation of Interstate Natural Gas Transportation Services, Order No. 637, *III FERC Statutes and Regulations*, Regulations Preambles ¶ 31,091, at pp. 31,250 and 31,255 (2000) (emphasis added).

There are similar secondary markets being developed for interstate electric transmission capacity and band width.

These examples demonstrate that the economics of a secondary market for transportation capacity are compelling and that a secondary market can be implemented in a regulated industry, with benefits for all concerned parties.

D. Proposed Changes to Regulations.

The Board asked for specific proposals to amend the existing regulations. ANPR at 5. Enron proposes to amend 49 C.F.R. § 1180.1(c)(1) by adding at the end of the existing text the following:

In weighing whether the proposed transaction provides potential benefits to the applicants and to the public, the Board will take into account whether the applicants have established, or intend to establish, a secondary market for rail transportation capacity.

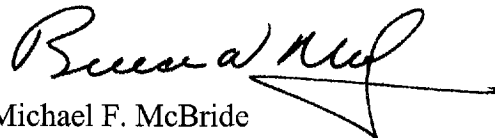
III. CONCLUSION

The development of a secondary market for rail transportation capacity, within the parameters identified in Section II.A., focuses directly on the Board's stated goals in revising its consolidation procedures: (i) enhancing competition, and (ii) improving service. Enron recommends that the Board revise its procedures to specifically require merger applicants to identify in their consolidation applications the steps they have taken to implement the type of

secondary capacity market addressed herein, or to demonstrate fully why they should not be made to implement such a secondary capacity market. The Board would then take the applicants' implementation of a capacity market (or failure to do so) into account in evaluating the effects of the proposed consolidation on competition, along with comments from shippers and others who might argue that the applicants should be required to implement such a secondary market as a condition of approval of the proposed consolidation.

Accordingly, the Board should adopt as an issue to be considered in major rail merger, acquisition, and control proceedings the implementation of a secondary market for rail transportation capacity and should amend 49 C.F.R. § 1180.1(c)(1) to add that the Board will take into account whether the applicant has established, or intends to establish, such a secondary market for rail transportation capacity with the minimum characteristics identified in Section II.A of these Comments.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Bruce W. Neely", with a stylized flourish extending from the end.

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Attorneys for Enron Corporation

Due Date: May 16, 2000
Dated: May 16, 2000

APPENDIX

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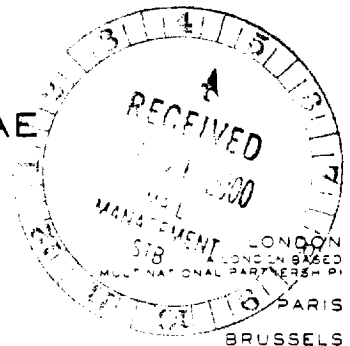
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February 29, 2000



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VIA HAND DELIVERY

Mr. Vernon A. Williams
Secretary, Surface Transportation Board
Room 2215
1201 Constitution Ave., N.W.
Washington, D.C. 20423

Re: Ex Parte No. 582, Public Views on Major Rail Consolidations

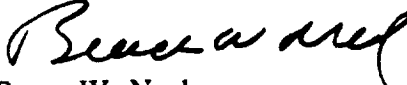
Dear Secretary Williams:

Enclosed are the original and ten copies of the "Statement of Enron Corporation" for filing in the above-referenced proceeding, and a diskette containing the Statement in WordPerfect format.

Also enclosed are three additional copies for date stamping and return via our messenger.

The oral presentation on Thursday, March 9 will be made by Daniel Reck, Vice President of Enron North America. He will be accompanied by the undersigned.

Very truly yours,


Bruce W. Neely

Attorney for Enron Corporation

Enclosures

UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
SURFACE TRANSPORTATION BOARD

EX PARTE NO. 582

PUBLIC VIEWS ON MAJOR RAIL CONSOLIDATIONS

STATEMENT OF ENRON CORPORATION

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Attorneys for Enron Corporation

Due Date: February 29, 2000
Dated: February 29, 2000

Introduction and Executive Summary

In accordance with the Board's January 24, 2000 notice in this proceeding, Enron Corporation ("Enron") hereby submits its comments on "major rail consolidations and the present and future structure of the North American railroad industry." Enron applauds the Board for convening this proceeding because the railroad industry is at a crossroads. For 20 years, the railroads have followed a strategy of growing through acquisitions, improving efficiency, and increasing single-line service. Enron supports improved service and increased single-line service and is not opposed to mergers as such. But the railroads industry's traditional market strategy is no longer working for either customers or the railroads. The last few major mergers have limited competitive alternatives for customers, resulting in inefficiency, poor service, and drastically lower equity values for the railroads themselves.

It is now time for a new approach to the market if the railroad industry is to grow. Based on our own experience as one of the nation's largest natural gas pipeline companies and the leading marketer of coal, natural gas, and electricity, Enron believes this new approach will require the railroad industry to focus on their operations and develop a method to allow them to respond to the market and increase profitability. These goals cannot be accomplished through re-regulation, and Enron does not propose that the Board re-regulate the rail industry. Rather, the railroads need the ability to recognize and maximize the market value of rail "capacity". To unlock this value, railroads must offer customers increased competitive alternatives, flexibility in the way they can use the rail network, and transparent pricing information.

Enron believes a necessary element for achieving these ends is the creation of a system of tradable capacity rights, which will allow customers to build an infinite number of "virtual railroads". By permitting customers to trade capacity in a secondary market, the rail network will be better utilized and the market value of the railroads' capacity will be maximized. That

capacity rights will allow the railroads to optimize their operations, maximize the value of their assets, and increase their return on capital. By building virtual railroads through the trading of capacity rights, customers will gain increased flexibility even in the face of future consolidation. Enron therefore encourages the Board to establish a procedure for industry participants to develop a system of tradable capacity rights.

In support hereof, Enron states:

Description of Enron Corporation

Enron was formed in 1985 through the merger of InterNorth, Inc. and Houston Pipeline Company. At that time, Enron's business was focused on natural gas and natural gas liquids. Enron's principal assets were interstate natural gas pipeline companies, which are subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC") under the Natural Gas Act, 15 U.S.C. § 717 et seq., and intrastate pipelines, which are subject to the jurisdiction of the States.

In that same year, the FERC began a process of opening natural gas markets to competition.¹ Enron initially resisted those efforts. Enron, however, came to embrace competition in order to grow in a fundamentally changed market. Today, Enron is the nation's second largest pipeline company, with pipelines that stretch from California to Florida, from Texas to the upper-Midwest, and from Canada to Chicago. With the opening of natural gas

¹ See Order No. 436, Regulation of Natural Gas Pipelines After Partial Wellhead Decontrol, FERC Stats. & Regs. [Reg. Preambles 1982-1985] ¶ 30,665 (1985) (subsequent history omitted). The FERC broadened the scope of its pro-competitive policies in 1992 in Order No. 636, Pipeline Service Obligation and Revisions to Regulations Governing Self-Implementing Transportation; and Regulation of Natural Gas Pipelines After Partial Wellhead Decontrol, FERC Stats. & Regs. [Regs. Preambles 1991-1996] ¶ 30,939 (1992) (subsequent history omitted).

markets to competition, Enron was one of the leaders in the development of natural gas marketing and is now the nation's leading marketer of natural gas. Likewise, when the FERC opened the wholesale power market to competition,² Enron pioneered the development of power marketing and is now the nation's leading marketer of electricity. Enron also owns Portland General Electric Company,³ which is subject to the jurisdiction of the FERC under the Federal Power Act, 16 U.S.C. § 824 et seq., and the State of Oregon, as well as numerous electric power plants that sell into the non-regulated electric market. Outside of the United States, Enron is engaged in developing assets in more than 30 countries in Latin America, Europe, Africa and Asia.

Enron also provides broadband services through the Enron Intelligent Network, which is a flexible global broadband network that allows for broadband and content delivery (that is, high quality video streaming and large file transfer). Enron actively supports the trading of bandwidth to best allocate resources. Since late 1999, Enron has provided an internet-based energy market transaction system through Enron Online. This system has already conducted over 10,000 transactions representing more than \$10 billion in business.

Enron's transformation and growth from its origins as a company formerly operating in

² See Order No. 888, Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities, FERC Stats. & Regs. [Regs. Preambles 1991-1996] ¶ 31,036 (1996), Order No. 888-A, on reh'g, III FERC Stats. & Regs. [Regs. Preambles] ¶ 31,048 (1997), Order No. 888-B, on reh'g, 82 FERC ¶ 61,046 (1998), pet. for review pending sub nom., Transmission Access Policy Study Group et al. v. FERC, No. 97-1715, et al. (D.C. Cir. Apr. 30, 1998).

³ Enron has agreed to sell Portland Electric General Company to Sierra Pacific Power Company. The sale is subject to approval by various regulatory authorities, which has not yet been obtained.

the largely regulated natural gas business, to today has been dramatic. In 1990, Enron's market capitalization was \$3.2 billion and has since grown to over \$46 billion.⁴

Position of Enron Corporation

Enron's interest in this proceeding stems from its coal trading activity. Since 1997, Enron has been actively engaged in trading coal, both in the United States and internationally. Enron delivered 24 million tons of coal to its customers in 1999 and will deliver over 30 million tons in 2000. The vast majority of this coal is shipped by Enron's customers on railroads in the United States. A financially sound and market responsive rail system will be important to the growth of Enron's coal trading business. Based on the extensive experience it has gained from operating in the deregulated natural gas and electricity markets, as well as its operation of an extensive transportation network in a competitive market, Enron believes that the railroads can maximize profits by responding to market signals -- indeed, that market responsiveness is the key to the future profitability of the railroads.

A. The Problem With the Current Structure of the Railroad Industry

In Enron's view, the primary problem facing the railroad industry and the Board in shaping policy for the future is this: The railroads are not market responsive and therefore are not maximizing the value of their assets. The current rail system is inflexible. It neither allocates capacity in response to short-term market signals nor efficiently meets long-term demands. **The simple fact is that the market mechanisms needed to enable the railroads to be market responsive do not exist.** Given the current equity valuations of the railroads, the need to develop these mechanisms is critical.

⁴ Based on Enron's closing price as of February 28, 2000.

A comparison with the interstate pipeline industry is instructive. Interstate pipeline companies receive real-time price signals from the market because the FERC created a secondary market for pipeline capacity.⁵ In this secondary market, a pipeline customer with a firm transportation contract can offer to sell, or release, the capacity under contract, or some portion of it, to a third party. A company wanting that capacity, or some portion of it, can bid for the capacity. Thus, when a customer does not need capacity the customer can sell the excess capacity; and a pipeline customer temporarily needing additional capacity can acquire it. Moreover, the customer acquiring the capacity can also add it to capacity purchased from the pipeline, another pipeline customer, or even another pipeline -- thus enabling the customer to create a virtual pipeline, as the FERC has recently noted:

has made possible the development of virtual pipelines. A virtual pipeline can be created when a marketer or other shipper acquires capacity on interconnecting pipelines and can schedule across the interconnect, creating in effect a new pipeline between receipt and delivery points that are not physically connected under a single pipeline management.⁶

As a result of the customers trading capacity in the secondary market and the creation of virtual pipelines, the pipeline learns the value its capacity has in the market. That information allows the operator to appropriately allocate capital and resources.

⁵ Regulations governing this secondary market are codified in 18 C.F.R. § 284.2-3 (1999). The FERC has recently revised these regulations in a way that is not material here. Regulation of Short-Term Natural Gas Transportation Services, and Regulation of Interstate Natural Gas Transportation Services, 90 FERC ¶ 61,109 (2000). The revised regulations will be codified in 18 C.F.R. § 284.8. Customers can also effectively trade capacity by buying and selling "delivered gas."

⁶ Regulation of Short-Term Natural Gas Transportation Services, and Regulation of Interstate Natural Gas Transportation Services, *supra*, slip op. at 18.

But railroads generally do not provide a mechanism for a customer to trade its rail capacity to another customer. For the most part, the customer's contract is not even assignable. As a consequence, there is no way for the customer to determine the value of its capacity or to sell excess capacity. By the same token, a customer needing additional service cannot obtain it without contracting directly with the railroads, generally under long-term contracts.

More importantly, the railroads themselves do not even know the value of their capacity in the market. This prevents the railroads from capturing the value of their assets and efficiently allocating capital. This has to change if the railroads are to continue to grow and profit.

B. A New Business Model for the Railroad Industry

In the 1980s, natural gas pipelines faced some tough years, and one interstate pipeline went into bankruptcy. But the industry survived and is now thriving, including the once-bankrupt pipeline. The railroads can learn from the pipelines' experience -- and, indeed, grow as the pipelines have grown.

One of the building blocks on which the pipelines' revival rests is the system of tradable capacity rights described above. In essence, this system is a market-driven mechanism for putting the rights to use the pipeline system into the hands of the customers that value the capacity most. It is beneficial for customers and the pipelines alike because it provides the private sector:

- a method for resolving capacity constraints, especially short-term constraints, thus enhancing reliability;
- a means for each customer to maximize the value of its contract with the pipeline by using the system or trading its rights to someone that wants to use the system, thereby increasing the utilization of the pipeline system;

- a competitive alternative for customers to purchase capacity directly from the pipeline;
- the ability for customers to access new markets; and
- a mechanism to determine the value of the pipeline's capacity, which is important information as to whether the pipeline needs to expand the system or some portion of it.

But perhaps the more important overall benefit provided by this system of tradable capacity rights is that the pipeline system is simply more flexible and responsive to the customers' changing needs and therefore more profitable to the owners. Railroads are different from pipelines. One obvious difference is in the way rates are set. Pipeline rates are generally set by the regulatory agency at cost, and these rates generally serve as a cap on prices in the secondary capacity market. Rail rates are generally not determined by the Board, and Enron does not propose to change that.

Developing a similar system of tradable capacity rights will unlock the value of the railroads' capacity; provide customers with the flexibility to maximize their usage of the rail system; improve the reliability of the rail network and enable the railroads to maximize the value of their capacity. Enron therefore urges the Board to make this need central in revising its merger policy.

Under a system of tradable rail capacity rights:

- **Customers would have defined capacity rights between one or more points where the freight is received and delivered.** In effect, the railroads would sell its capacity between these points to the customers for a defined period of time.
- Customers would have the option of buying capacity on the basis of tiered service levels, with rates reflecting the quality of service.
- Customers could trade their firm rights to the capacity to others. The customer acquiring the rights would be able to have its freight received and delivered anywhere between the points defined by the original customer. The customer acquiring another customer's rights may

combine the acquired rights with rights it has under contract itself or acquired from other customers. In this way, the acquiring customer can create its own "virtual railroad."

- Railroads could effectively increase the capacity of their existing infrastructure without additional capital expenditures.

A system of tradable rail capacity rights is clearly feasible because Burlington Northern and Union Pacific have a system by which grain shippers can trade rail capacity. Moreover, as an operator of natural gas pipelines, Enron knows that a necessary condition for pipelines providing the flexibility inherent in a system of tradable capacity rights has been the ability to maintain control over the operation of the pipeline. Railroads undoubtedly will need similar controls.

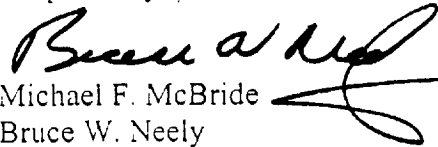
These issues need to be explored further. Enron therefore recommends that the Board establish a working group of industry participants to identify issues raised by the implementation of a system of tradable capacity rights and to develop a concrete proposal. This working group would operate under the oversight of the Board and would report back to the Board within 90 days. Enron would be delighted to participate in such a process.

Conclusion

The railroads are at a crossroads. There are two choices: continue the present structure or change it. Continuing the structure is easy, and the Board will no doubt be urged to let the industry continue as it has. But consider the consequences of continuing the current approach. Under this approach, the railroads' return on capital is poor -- and will likely stay depressed; share prices of most Class I railroads have plummeted, thus limiting their ability to raise capital; and customers are dissatisfied. Change is inevitable and necessary.

Enron and the pipeline industry faced a similar challenges in the 1980s. Enron has embraced the changes that confronted the natural gas industry and, as a result, has grown dramatically. Enron therefore urges the Board to embrace change and to revise its merger policy in accordance with these Comments.

Respectfully submitted,



Michael F. McBride

Bruce W. Neely

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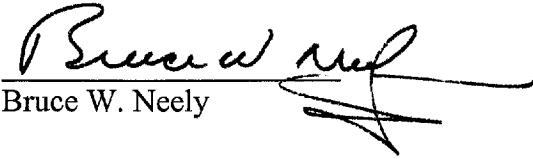
Attorneys for Enron Corporation

Due Date: February 29, 2000

Dated: February 29, 2000

CERTIFICATE OF SERVICE

I certify that this 16th day of May, 2000, I have served a copy of the foregoing on all parties of record on the Service List in accordance with the Board's Rules of Practice.


Bruce W. Neely